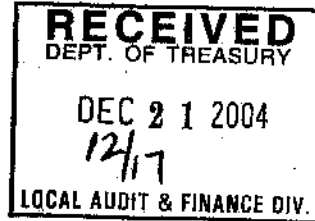


STATE COPY



CITY OF YALE

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St. Clair County

74-2080

FINANCIAL STATEMENTS

June 30, 2004

**BERTHIAUME
& COMPANY**

Certified Public Accountants



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF YALE	County ST. CLAIR
Audit Date 6/30/04	Opinion Date 9/15/04	Date Accountant Report Submitted to State: 12/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). DDA and LDFA, SEE PAGE 37 |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations. PAGE 57	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name)

BERTHIAUME & COMPANY, CPAS

Street Address

60 HARROW LANE

City

SAGINAW

State

MI

ZIP

48603

Accountant Signature

Berthiaume

Date

12-15-04

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**BERTHIAUME
& COMPANY**

Certified Public Accountants

60 Harrow Lane
Saginaw, Michigan 48603

(989) 791-1555
Fax (989) 791-1992

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Yale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Yale, Michigan management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2004, on our consideration of the City of Yale, Michigan's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Yale, Michigan's, basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.
September 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements:

The 2004 financial statements of the City of Yale follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Government Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Downtown Development Authority and the Local Development Finance Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Government Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

CITY OF YALE

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short- and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$5,396,490 (net assets), an increase of \$57,680 from the previous year. Of the \$5,396,490 reported in net assets, approximately \$1,693,783 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities decreased \$226,037, or 9.7 percent, while net assets of our business-type activities increased \$283,717, or 9.4 percent.
- Unrestricted net assets for governmental activities are 75.3 percent of expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported expenditures in excess of revenues of \$15,545 for the year. This resulted in a year end fund balance of \$527,396. Of this amount, \$485,048 is unreserved and undesignated, or 59.8 percent of General Fund expenditures.
- The City's total debt decreased by \$266,146 during the current fiscal year. Of this amount \$195,000 was as a result of annual debt service requirements and \$71,146 was a payoff of a loan.

The City as a Whole:

The City's combined net assets are \$5,396,490 at June 30, 2004. Business-type activities make up \$3,287,285 and governmental activities make up \$2,109,205 of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities are not part of the management's discussion and analysis.

City of Yale – Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$5,396,490 (net assets). However, a major portion (63 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

CITY OF YALE

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Unrestricted net assets of the City increased from \$5,338,810 at June 30, 2003 to \$5,396,490 at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table shows the changes in net assets for 2004:

CITY OF YALE -- CHANGES IN NET ASSETS

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>
Revenues			
Program Revenues:			
Charges for services	\$ 115,041	\$ 624,785	\$ 739,826
Operating grants and contributions	206,655	-	206,655
Capital grants and contributions	-	140,000	140,000
General Revenues:			
Property taxes	450,264	-	450,264
Grants and contributions not restricted to specific programs	216,632	-	216,632
Investment earnings	8,636	17,670	26,306
Miscellaneous	9,102	-	9,102
Contributions to permanent fund principal	4,150	-	4,150
Transfers	45,343	-	45,343
Total revenues	1,055,823	782,455	1,838,278
Expenses			
General government	238,526	-	238,526
Public safety	376,938	-	376,938
Public works	606,561	-	606,561
Recreation and culture	47,980	-	47,980
Interest on long-term debt	11,855	-	11,855
Sewer	-	212,194	212,194
Water	-	286,544	286,544
Total expenses	1,281,860	498,738	1,780,598
Change in net assets	(226,037)	283,717	57,680
Net assets, beginning of year	2,335,242	3,003,568	5,338,810
Net assets, end of year	\$ 2,109,205	\$ 3,287,285	\$ 5,396,490

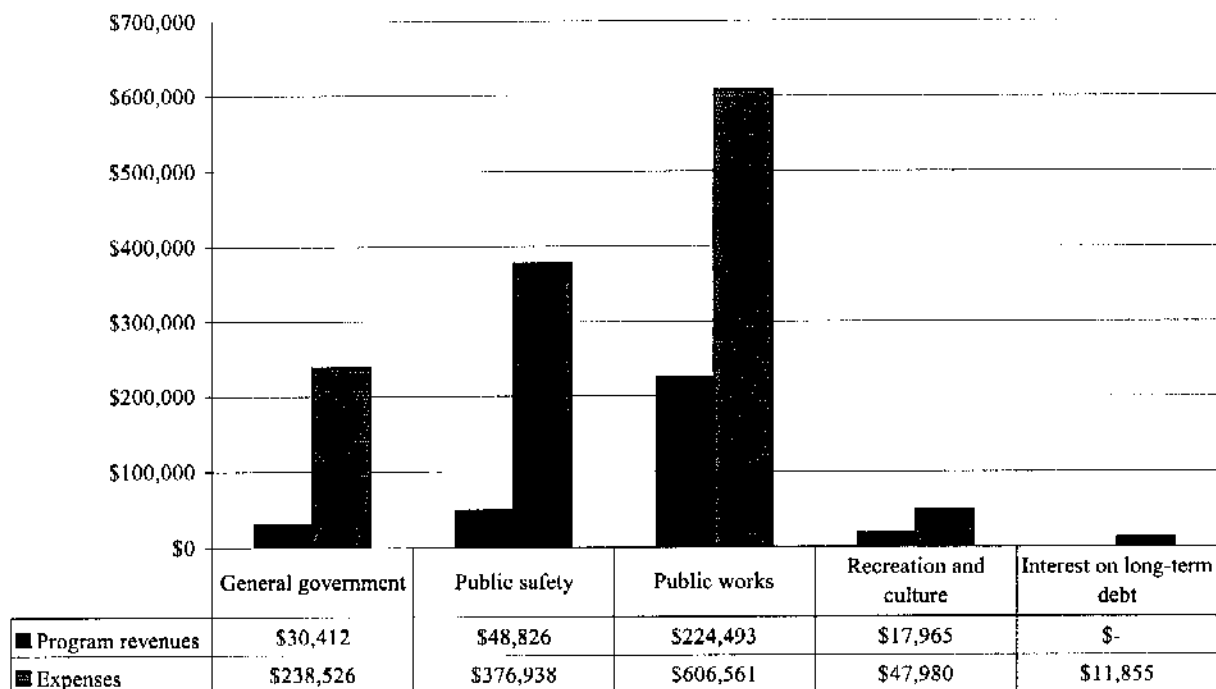
CITY OF YALE

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

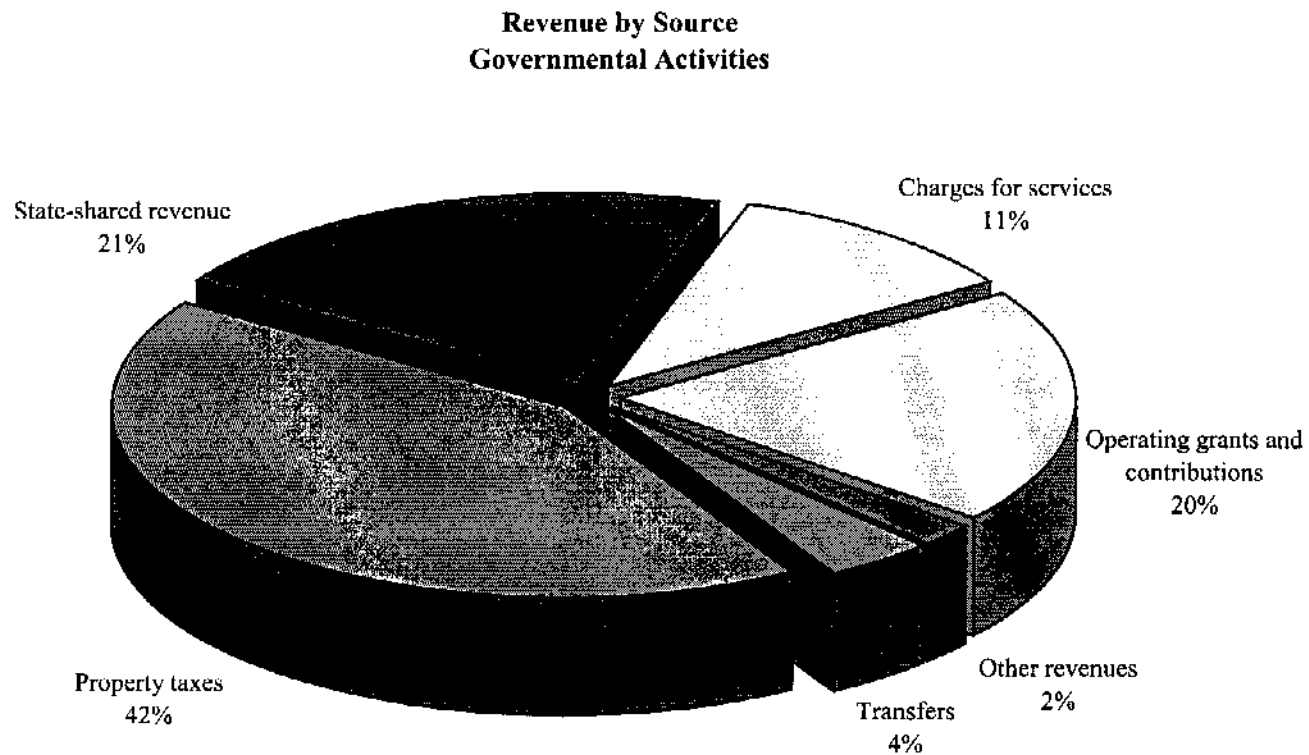
Governmental Activities:

For the year ended June 30, 2004, revenues for the City's governmental activities totaled \$1,055,823. Property taxes accounted for 43 percent of the total revenues, or \$450,264. State-shared revenues were 21 percent, or \$216,632; these revenues continue to be a concern as to future funding levels.

Expenses and Program Revenues Governmental Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

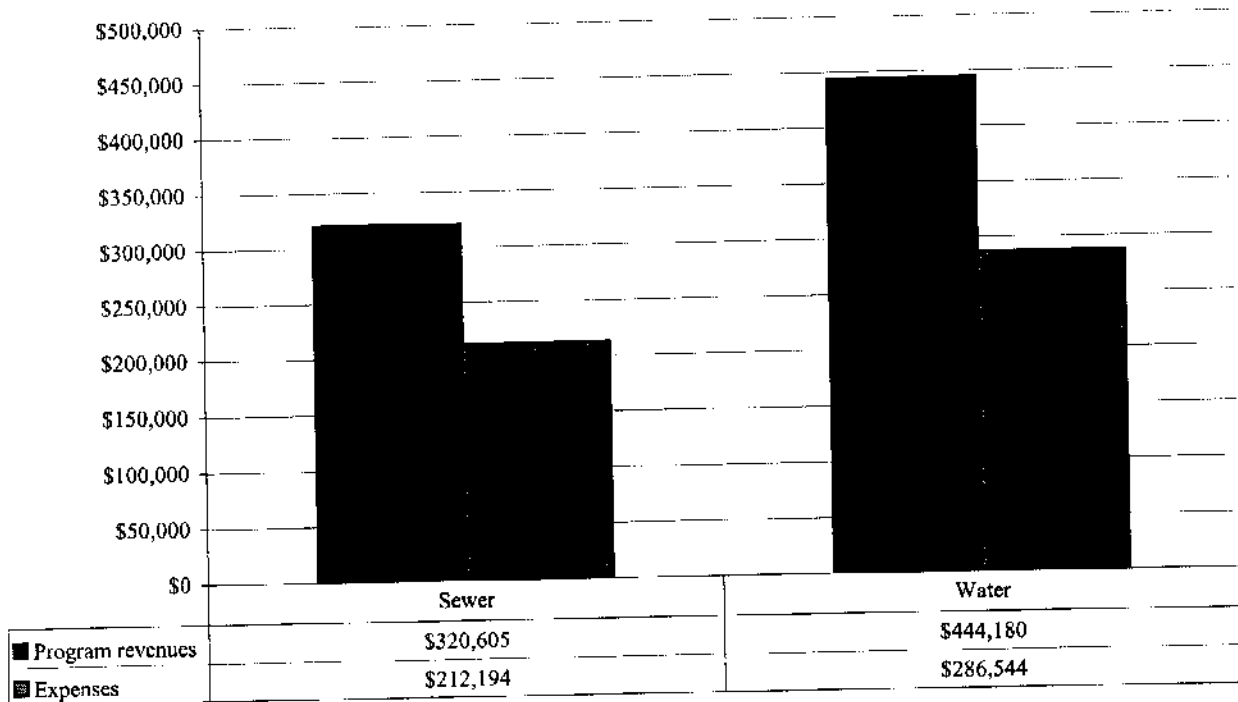


MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Business-type Activities:

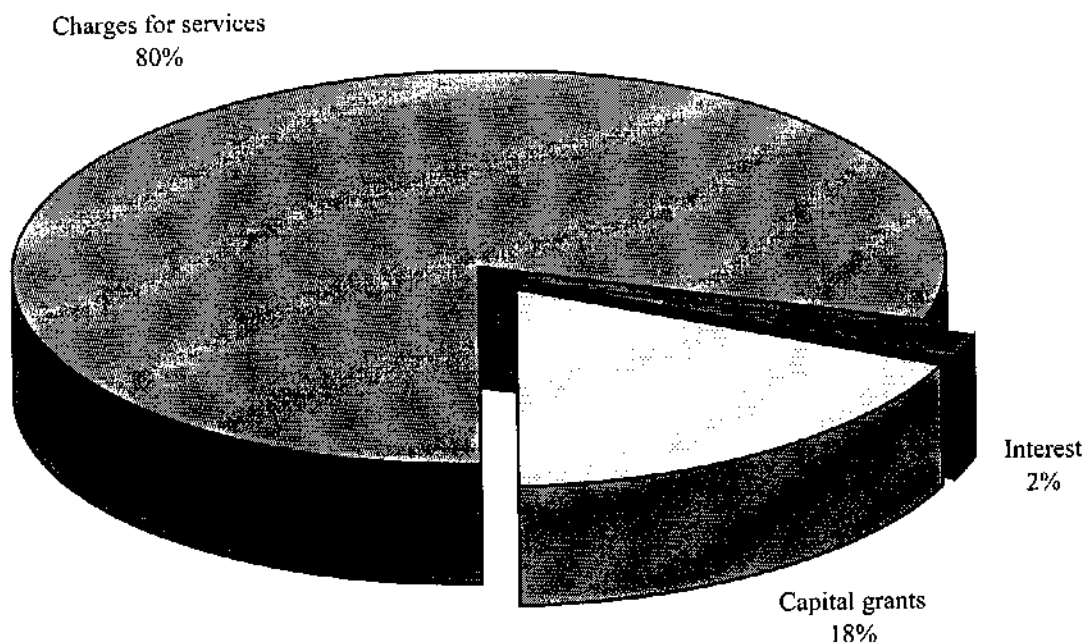
For the year ended June 30, 2004, revenues for business-type activities were \$782,455. Charges for services were 80 percent of gross revenues, or \$624,785. Capital grants were 18 percent of gross revenues, or \$140,000.

Expenses and Program Revenues Business-type Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Revenue by Source Business-type Activities



The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$624,785 in charges for services, and incurred \$498,738 in expenses. In addition, general revenues for business-type activities were \$17,670. The City's business-type activities experienced an increase in net assets of \$283,717 for the year.

Capital Assets and Debt Administration:

At the end of the fiscal year 2004, the City has \$8,077,156 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings and improvements, equipment, and sewer and water distribution systems. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since July 1, 2003. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is \$0 at June 30, 2004.

Debt of \$155,000 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer and water systems totaling \$3,243,000 is recorded as a liability in the business-type activities in the statement of net assets. Proceeds from this debt were used for the sewage disposal and water supply systems.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, Local Street Fund, and City Street Fund.

The City's governmental funds reported combined fund balance of \$842,514 for this year, a decrease of \$98,050 from last year. The main reason for the shortfall is due to a significant street project in the City Street Fund, which required transfers from other funds to cover the cost.

Budgetary Highlights:

Differences between the original and final amended budgets for the General Fund, Major Street Fund, and Local Street Fund revenues and expenditures were relatively minor. Differences between the original and final amended budget for the City Street Fund were relatively minor except for the amendment for capital outlay. This was due to the significant street project.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care).

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John Osborn, City Manager, 111 West Mechanic Street, Yale, Michigan 48097.

BASIC FINANCIAL STATEMENTS

CITY OF YALE

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 837,380	\$ 693,192	\$ 1,530,572	\$ 65,686
Investments	5,277	-	5,277	-
Receivables	373,399	93,172	466,571	-
Internal balances	18,878	(18,878)	-	-
Prepaid expenses	42,819	663	43,482	-
Restricted cash and cash equivalents	-	53,804	53,804	-
Capital Assets:				
Nondepreciable capital assets	381,161	-	381,161	-
Depreciable capital assets, net	667,792	5,748,116	6,415,908	-
Total assets	2,326,706	6,570,069	8,896,775	65,686
Liabilities:				
Accounts payable and accrued expenses	47,258	38,016	85,274	506
Long-term liabilities:				
Due within one year	10,000	192,000	202,000	25,534
Due in more than one year	160,243	3,052,768	3,213,011	84,684
Total liabilities	217,501	3,282,784	3,500,285	110,724
Net assets:				
Invested in capital assets, net of related debt	893,953	2,505,116	3,399,069	-
Restricted for:				
Debt service	-	53,804	53,804	-
Nonexpendable cemetery principal	93,541	-	93,541	-
Streets	156,293	-	156,293	-
Unrestricted	965,418	728,365	1,693,783	(45,038)
Total net assets	\$ 2,109,205	\$ 3,287,285	\$ 5,396,490	\$ (45,038)

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental Activities:</i>					
General government	\$ 238,526	\$ 30,412	\$ -	\$ -	\$ (208,114)
Public safety	376,938	17,837	30,989	-	(328,112)
Public works	606,561	66,792	157,701	-	(382,068)
Recreation and culture	47,980	-	17,965	-	(30,015)
Interest on long-term debt	11,855	-	-	-	(11,855)
Total governmental activities	1,281,860	115,041	206,655	-	(960,164)
<i>Business-type Activities:</i>					
Sewer	212,194	320,605	-	-	108,411
Water	286,544	304,180	-	140,000	157,636
Total business-type activities	498,738	624,785	-	140,000	266,047
Total primary government	\$ 1,780,598	\$ 739,826	\$ 206,655	\$ 140,000	\$ (694,117)
COMPONENT UNITS:					
Downtown development authority	\$ 30,810	\$ -	\$ -	\$ -	\$ (30,810)
Local development finance authority	30,555	-	5,300	-	(25,255)
Total component units	\$ 61,365	\$ -	\$ 5,300	\$ -	\$ (56,065)

(Continued)

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			<i>Component Units</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
Changes in net assets				
Net (Expense) Revenue	\$ (960,164)	\$ 266,047	\$ (694,117)	\$ (56,065)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	392,582	-	392,582	92,360
Property taxes, levied for police protection	57,682	-	57,682	-
Grants and contributions not restricted to specific programs	216,632	-	216,632	-
Unrestricted investment earnings	8,636	17,670	26,306	711
Miscellaneous	9,102	-	9,102	40
Contributions to permanent fund principal	4,150	-	4,150	-
Transfers	45,343	-	45,343	(45,343)
Total general revenues, contributions & transfers	734,127	17,670	751,797	47,768
Change in net assets	(226,037)	283,717	57,680	(8,297)
Net assets, beginning of year	2,335,242	3,003,568	5,338,810	(36,741)
Net assets, end of year	\$ 2,109,205	\$ 3,287,285	\$ 5,396,490	\$ (45,038)

CITY OF YALE

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>City Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Assets:						
Cash and cash equivalents	\$ 172,325	\$ 50,222	\$ 85,789	\$ 35,757	\$ 120,793	\$ 464,886
Investments	-	-	-	-	5,277	5,277
Taxes receivable	252,532	-	-	-	-	252,532
Accounts receivable	24,583	-	-	-	-	24,583
Interest receivable	3,523	-	-	-	-	3,523
Due from other governmental units	70,441	15,814	6,506	-	-	92,761
Due from other funds	-	-	-	-	10,710	10,710
Prepaid expenditures	42,348	-	-	-	471	42,819
Total assets	<u>\$ 565,752</u>	<u>\$ 66,036</u>	<u>\$ 92,295</u>	<u>\$ 35,757</u>	<u>\$ 137,251</u>	<u>\$ 897,091</u>
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable and accrued expenses	\$ 38,218	\$ 1,662	\$ 376	\$ 2,000	\$ 1,473	\$ 43,729
Due to other governmental units	138	-	-	-	-	138
Due to other funds	-	-	-	-	10,710	10,710
Total liabilities	<u>38,356</u>	<u>1,662</u>	<u>376</u>	<u>2,000</u>	<u>12,183</u>	<u>54,577</u>
Fund Balances:						
Reserved for:						
Prepaid expenditures	42,348	-	-	-	471	42,819
Nonexpendable cemetery principal	-	-	-	-	93,541	93,541
Unreserved, reported in:						
General fund	485,048	-	-	-	-	485,048
Special revenue funds	-	64,374	91,919	33,757	31,056	221,106
Total fund balances	<u>527,396</u>	<u>64,374</u>	<u>91,919</u>	<u>33,757</u>	<u>125,068</u>	<u>842,514</u>
Total liabilities and fund balances	<u>\$ 565,752</u>	<u>\$ 66,036</u>	<u>\$ 92,295</u>	<u>\$ 35,757</u>	<u>\$ 137,251</u>	<u>\$ 897,091</u>

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total fund balances for governmental funds		\$ 842,514
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	798,201	
Less accumulated depreciation	<u>(325,789)</u>	472,412
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Compensated absences payable		(15,243)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		
		<u>809,522</u>
Net assets of governmental activities		<u>\$ 2,109,205</u>

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>City Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total Governmental Funds</i>
Revenues:						
Property taxes	\$ 450,265	\$ -	\$ -	\$ -	\$ 7,860	\$ 458,125
Licenses and permits	11,003	-	-	-	-	11,003
Federal grants	552	-	-	-	-	552
State grants	217,749	93,130	38,283	26,289	1,327	376,778
Contributions from other units	25,225	-	-	-	-	25,225
Charges for services	66,827	-	-	-	15,037	81,864
Fines and forfeits	5,607	-	-	-	-	5,607
Interest and rents	5,523	(2,712)	(334)	66	11,296	13,839
Other revenue	12,962	-	-	-	22,030	34,992
Total revenues	795,713	90,418	37,949	26,355	57,550	1,007,985
Expenditures:						
<i>Current:</i>						
General government	192,301	-	-	-	43,322	235,623
Public safety	376,428	-	-	-	901	377,329
Public works	182,219	51,672	28,703	101	-	262,695
Recreation and culture	45,800	-	-	-	261	46,061
Capital outlay	14,510	-	-	370,337	196	385,043
Total expenditures	811,258	51,672	28,703	370,438	44,680	1,306,751
Excess (deficiency) of revenues over expenditures	(15,545)	38,746	9,246	(344,083)	12,870	(298,766)
Other financing sources (uses) :						
Transfers in	10,000	-	-	349,190	10,710	369,900
Transfers out	-	(98,000)	(50,474)	-	(20,710)	(169,184)
Total other financing sources (uses)	10,000	(98,000)	(50,474)	349,190	(10,000)	200,716
Net change in fund balances	(5,545)	(59,254)	(41,228)	5,107	2,870	(98,050)
Fund balances, beginning of year, as restated	532,941	123,628	133,147	28,650	122,198	940,564
Fund balances, end of year	\$ 527,396	\$ 64,374	\$ 91,919	\$ 33,757	\$ 125,068	\$ 842,514

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2004

Net change in fund balances – total governmental funds \$ (98,050)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	13,000	
Less depreciation expense	<u>(16,053)</u>	(3,053)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	1,471
--	-------

The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>(126,405)</u>
--	------------------

Change in net assets of governmental activities \$ (226,037)

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

Year Ended June 30, 2004

	<i>Enterprise Funds</i>			<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 408,554	\$ 284,638	\$ 693,192	\$ 372,494
Accounts receivable	49,416	43,756	93,172	-
Prepaid expenses	277	386	663	-
Total current assets	458,247	328,780	787,027	372,494
Noncurrent assets:				
Restricted cash and cash equivalents	-	53,804	53,804	-
Capital Assets:				
Nondepreciable capital assets	-	-	-	138,341
Depreciable capital assets, net	2,974,946	2,773,170	5,748,116	438,200
Total noncurrent assets	2,974,946	2,826,974	5,801,920	576,541
Total assets	3,433,193	3,155,754	6,588,947	949,035
Liabilities:				
Current liabilities:				
Accounts payable and accrued expenses	12,468	25,548	38,016	3,391
Compensated absences payable	571	1,197	1,768	-
Current portion of long-term debt	150,000	42,000	192,000	10,000
Total current liabilities	163,039	68,745	231,784	13,391
Noncurrent Liabilities:				
Long-term debt	1,345,000	1,706,000	3,051,000	145,000
Total noncurrent liabilities	1,345,000	1,706,000	3,051,000	145,000
Total liabilities	1,508,039	1,774,745	3,282,784	158,391
Net assets:				
Invested in capital assets, net of related debt	1,479,946	1,025,170	2,505,116	421,541
Restricted for:				
Debt service	-	53,804	53,804	-
Unrestricted	445,208	302,035	747,243	369,103
Total net assets	\$ 1,925,154	\$ 1,381,009	3,306,163	\$ 790,644

Some amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

	(18,878)
Net assets of business-type activities	<u>\$ 3,287,285</u>

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	<i>Enterprise Funds</i>			<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	
Operating revenues:				
Charges for services	\$ 313,518	\$ 298,010	\$ 611,528	\$ 23,000
Penalties	6,362	6,170	12,532	-
Equipment rental	-	-	-	107,215
Other	725	-	725	-
Total operating revenues	320,605	304,180	624,785	130,215
Operating expenses:				
Personnel	35,465	48,734	84,199	14,330
Fringe benefits	7,733	13,196	20,929	4,486
Supplies	5,588	12,741	18,329	133
Gas and oil	-	-	-	5,556
Contracted services	14,209	32,668	46,877	2,104
Mileage	60	580	580	-
Dues and membership fees	-	1,060	1,120	-
Education and training	-	699	699	-
Printing and publishing	-	651	651	470
Insurance	337	337	674	-
Utilities	8,483	7,679	16,162	-
Repair and maintenance	8,807	14,007	22,814	22,703
Equipment rental	15,638	19,273	34,911	-
Other services and supplies	6	(9)	(3)	784
Depreciation	78,059	48,844	126,903	33,775
Total operating expenses	174,385	200,460	374,845	84,341
Operating income (loss)	146,220	103,720	249,940	45,874
Non-operating revenues (expenses):				
Federal grants	-	140,000	140,000	-
Interest income	5,074	12,596	17,670	2,494
Rental income	-	-	-	11,333
Interest expense	(37,809)	(86,084)	(123,893)	(11,855)
Total non-operating revenues (expenses)	(32,735)	66,512	33,777	1,972
Net income before operating transfers	113,485	170,232	283,717	47,846
Operating transfers:				
Transfer to other funds	-	-	-	(155,373)
Total operating transfers	-	-	-	(155,373)
Net income (loss)	113,485	170,232	283,717	(107,527)
Net assets, beginning of year, as restated	1,811,669	1,210,777	3,022,446	898,171
Net assets, end of year	\$ 1,925,154	\$ 1,381,009	\$ 3,306,163	\$ 790,644

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	<i>Enterprise Funds</i>			<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	
Cash flows from operating activities:				
Cash received from customers	\$ 321,936	\$ 306,491	\$ 628,427	\$ 120,500
Internal activity - payments from other funds	-	-	-	107,215
Cash payments to employees	(35,793)	(48,744)	(84,537)	(14,330)
Cash payments to suppliers for goods and services	(61,618)	(106,272)	(167,890)	(34,732)
Net cash provided (used) by operating activities	224,525	151,475	376,000	178,653
Cash flows from non-capital financing activities:				
Transfers to other funds	-	-	-	(155,373)
Net cash provided (used) by non-capital financing activities	-	-	-	(155,373)
Cash flows from capital and related financing activities:				
Federal grants	-	140,000	140,000	-
Acquisition and construction of capital assets	(50,305)	(140,000)	(190,305)	-
Principal payments	(145,000)	(40,000)	(185,000)	(81,146)
Interest paid	(37,809)	(86,084)	(123,893)	(11,855)
Net cash provided (used) by capital and related financing activities	(233,114)	(126,084)	(359,198)	(93,001)
Cash flows from investing activities:				
Interest received	5,074	12,596	17,670	2,494
Rental income	-	-	-	11,333
Net cash provided by investing activities	5,074	12,596	17,670	13,827
Net increase (decrease) in cash and cash equivalents	(3,515)	37,987	34,472	(55,894)
Cash and cash equivalents, beginning of year	412,069	300,455	712,524	428,388
Cash and cash equivalents, end of year	\$ 408,554	\$ 338,442	\$ 746,996	\$ 372,494
Operating income (loss):	\$ 146,220	\$ 103,720	\$ 249,940	\$ 45,874
Adjustments:				
Depreciation	78,059	48,844	126,903	33,775
Decrease (increase) in current assets:				
Accounts receivable	1,331	2,311	3,642	1,500
Notes receivable	-	-	-	96,000
Prepaid expenses	(53)	(53)	(106)	-
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	(704)	(3,337)	(4,041)	1,504
Compensated absences payable	(328)	(10)	(338)	-
Net cash provided (used) by operating activities	\$ 224,525	\$ 151,475	\$ 376,000	\$ 178,653

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004

	<u><i>Agency Funds</i></u>
Assets:	
Cash and cash equivalents	<u>\$ 265,225</u>
Liabilities:	
Accounts payable and accrued expenses	<u>\$ 265,225</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Yale, Michigan, established in 1906, is a public corporation created under the Constitution and statutes of the State of Michigan. Located in St. Clair County, the City of Yale covers an area of approximately one square mile and is one of seven cities in St. Clair County, Michigan, each of which is a separate governmental entity. The City operates under an elected City Council which consists of a Mayor, Clerk, Treasurer, and six Council members and provides services in many areas including law enforcement, fire protection, ambulance services, water, sewer, solid waste disposal, streets, and parks and recreation to approximately 2,100 residents.

The accounting policies of the City of Yale conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units columns in the combined financial statements include the financial data of the City's three component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The issuance of bonded debt and levying of taxes by the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Local Development Finance Authority - The members of the governing board of the Local Development Finance Authority (LDFA) are appointed by the City Council. The issuance of bonded debt and levying of taxes by the LDFA must be approved by the City Council. The City also has the ability to significantly influence operations of the LDFA.

Separate financial statements for the component units are not prepared.

Basis of Presentation – Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

City Street Fund – The City Street Fund is used to account for the street operations.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of the date they are levied. City and community college taxes are levied and due July 1 and become delinquent after September 15. County, school, and library taxes are levied and due December 1 and become delinquent after February 14. City property tax revenues are recognized in the fiscal year for which the taxes are levied to the extent that they result in current receivables.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property Taxes, continued – 2003 taxable valuation of the City totaled \$33,244,130, on which ad valorem taxes levied consisted of 12.7425 mills for the City's operating purposes and 1.9696 mills for police protection.

The delinquent real property taxes of the City are purchased by St. Clair County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Inventories and Prepaid Items – Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$2,500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if any were acquired since July 1, 2003. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Vehicles	5-10 years
Furniture and other equipment	4-30 years
Distribution systems - water and sewer	5-50 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick or vacation days depending on type of employee. Under the police union contract, employees with 5 or more years of service at separation will be paid 50% of the first 500 hours of accumulated sick days and 25% of the remainder, up to 980 hours. Other employees not covered under any specific contract with 1 or more years of service at separation will be paid for accumulated vacation days at their current rate of pay. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Accounting Change:

GASB Statement No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$1,395,517, of which \$856,033 was previously reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 have been adjusted by \$309,736 to reflect the historical cost of the City's capital assets at that date. In addition, the governmental activities column includes other long-term obligations totaling \$16,714, of which \$12,762 was previously reported in the General Long-term Debt Account Group.

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by a City Council resolution.
4. The City Manager is authorized to transfer budgeted amounts between line items within an activity. However, any revision that alters the total expenditures of any fund must be approved by the City.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	<i>Final Budget</i>	<i>Actual</i>	<i>Actual Over Final Budget</i>
Special Revenue Funds:			
Major Street Fund -Transfers out	\$ 48,000	\$ 98,000	\$ 50,000

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, continued

Cumulative surplus at July 1, 2003	\$ -
Current year building permit revenue	10,521
Related expenses:	
Direct costs	8,482
Estimated indirect costs	<u>2,039</u>
Total construction code expenses	<u>10,521</u>
Cumulative surplus at June 30, 2004	<u>\$ -</u>

In accordance with the Act, no reservation of fund balance in the General Fund is required for future construction code activities.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2004 are included in the statement of net assets under the following categories:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total Primary Government</i>	<i>Component Units</i>
Cash and cash equivalents	\$ 837,380	\$ 693,192	\$ 1,530,572	\$ 65,686
Investments	5,277	-	5,277	-
Restricted cash and cash equivalents	-	53,804	53,804	-
	<u>\$ 842,657</u>	<u>\$ 746,996</u>	<u>\$ 1,589,653</u>	<u>\$ 65,686</u>

Deposits:

The breakdown between deposits and investments for the City is as follows:

	<i>Primary Government</i>	<i>Component Units</i>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,583,876	\$ 65,686
Investments in taxable bonds and similar vehicles	5,277	-
Petty cash and cash on hand	<u>500</u>	<u>-</u>
Total	<u>\$ 1,589,653</u>	<u>\$ 65,686</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 3: DEPOSITS AND INVESTMENTS, continued

The deposits of the primary government and component units were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,653,239, of which \$500,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	<u>Category</u>			<u>Reported Amount (Fair Value)</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Primary government:				
GNMA bonds	\$ -	\$ 5,277	\$ -	\$ 5,277

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The ordinance authorizing issuance of the 2001 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Receiving Account - All receipts are initially deposited into this account.

Operation and Maintenance Account - Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Bond Reserve Account - Excess funds of up to \$2,750 per quarter are to be transferred to this account until \$111,000 is accumulated.

As of June 30, 2004, the City has set aside sufficient amounts as follows:

	<u>Water</u>
Restricted cash and cash equivalents:	
Bond and interest redemption account	\$ 31,804
Bond reserve	<u>22,000</u>
	<u>\$ 53,804</u>

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2004</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 381,161	\$ -	\$ -	\$ 381,161
Capital assets being depreciated				
Buildings and improvements	552,096	13,000	-	565,096
Land improvements	13,718	-	-	13,718
Furniture and equipment	397,470	-	-	397,470
Vehicles	<u>470,222</u>	<u>-</u>	<u>-</u>	<u>470,222</u>
Total capital assets being depreciated	1,433,506	13,000	-	1,446,506
Accumulated depreciation	<u>728,886</u>	<u>49,828</u>	<u>-</u>	<u>778,714</u>
Net capital assets being depreciated	<u>704,620</u>	<u>(36,828)</u>	<u>-</u>	<u>667,792</u>
Net governmental capital assets	<u>\$ 1,085,781</u>	<u>\$ (36,828)</u>	<u>\$ -</u>	<u>\$ 1,048,953</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 5: CAPITAL ASSETS, continued

	<i>Balance July 1, 2003</i>	<i>Additions</i>	<i>Disposals and Adjustments</i>	<i>Balance June 30, 2004</i>
<i>Business-type activities</i>				
Sewer capital assets				
Capital assets being depreciated				
Equipment	\$ 46,284	\$ 39,853	\$ -	\$ 86,137
Distribution system	3,449,341	36,789	-	3,486,130
Subtotal	3,495,625	76,642	-	3,572,267
Accumulated depreciation	519,262	78,059	-	597,321
Net sewer capital assets	2,976,363	(1,417)	-	2,974,946
<i>Water capital assets</i>				
Capital assets being depreciated				
Equipment	87,789	-	-	87,789
Distribution system	2,830,594	140,000	-	2,970,594
Subtotal	2,918,383	140,000	-	3,058,383
Accumulated depreciation	236,369	48,844	-	285,213
Net water capital assets	2,682,014	91,156	-	2,773,170
Net business-type capital assets	<u>\$ 5,658,377</u>	<u>\$ 89,739</u>	<u>\$ -</u>	<u>\$ 5,748,116</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 7,409
Public safety	19,526
Public works	15,982
Recreation and culture	6,911
Total governmental activities	<u>\$ 49,828</u>

Business-type activities:

Sewer	\$ 78,059
Water	48,844
Total business-type activities	<u>\$ 126,903</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 6: LONG-TERM DEBT

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

	<i>Interest Rate Ranges</i>	<i>Principal Maturity Ranges</i>	<i>Beginning Balance</i>	<i>Additions (Reductions)</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Governmental activities						
Purchase contract - Fire Truck						
Amount of Issue - \$185,000						
Maturing through April 2016	4.75%	\$10,000-17,500	\$ 165,000	\$ (10,000)	\$ 155,000	\$ 10,000
Installment loan - Building						
Amount of Issue - \$78,242						
Maturing through July 2010			71,146	(71,146)	-	-
Compensated absences			<u>16,714</u>	<u>(1,471)</u>	<u>15,243</u>	<u>-</u>
Total governmental activities			252,860	(82,617)	170,243	10,000
Business-type activities						
General obligation bond - Sewage						
Disposal System						
Amount of Issue - \$2,490,000						
Maturing through October 2013	2.00%	120,000-150,000	1,490,000	(120,000)	1,370,000	125,000
General obligation bond - Sewage						
Disposal System						
Amount of Issue - \$400,000						
Maturing through November 2008	6.4-6.75%	25,000	150,000	(25,000)	125,000	25,000
Revenue bond - Water Supply System						
Amount of Issue - \$1,857,000						
Maturing through October 2040	4.875%	20,000-90,000	1,788,000	(40,000)	1,748,000	42,000
Compensated absences			<u>2,106</u>	<u>(338)</u>	<u>1,768</u>	<u>-</u>
Total business-type activities			<u>3,430,106</u>	<u>(185,338)</u>	<u>3,244,768</u>	<u>192,000</u>
Total governmental and business-type activities			<u>\$ 3,682,966</u>	<u>\$ (267,955)</u>	<u>\$ 3,415,011</u>	<u>\$ 202,000</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 6: LONG-TERM DEBT, continued

Component units:	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Contract payable - Repair work						
Amount of Issue - \$25,000						
Maturing through 2008	0.00%	\$5,000	\$ -	\$ 25,000 <u>(5,000)</u>	\$ 20,000	\$ 5,000
Note payable - Downtown improvements						
Amount of Issue - \$105,000						
Maturing through June 2008	2.23%	20,534-21,930	105,000	(20,082)	84,918	20,534
Loan payable						
Amount of Issue - \$5,300						
Maturing through December 2005	1.90%	5,300	-	5,300	5,300	-
Total component units			<u>\$ 105,000</u>	<u>\$ 5,218</u>	<u>\$ 110,218</u>	<u>\$ 25,534</u>

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

<u>Year Ended June 30,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>			<u>Component Units</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 10,000	\$ 7,362	\$ 17,362	\$ 192,000	\$ 117,779	\$ 309,779	\$ 25,534	\$ 1,996	\$ 27,530
2006	10,000	6,888	16,888	199,000	111,520	310,520	31,291	1,538	32,829
2007	10,000	6,412	16,412	201,000	105,388	306,388	26,460	968	27,428
2008	12,500	7,938	20,438	203,000	98,835	301,835	26,933	489	27,422
2009	12,500	5,343	17,843	210,000	91,815	301,815	-	-	-
2010-2014	67,500	17,692	85,192	837,000	392,985	1,229,985	-	-	-
2015-2019	32,500	2,376	34,876	146,000	324,286	470,286	-	-	-
2020-2024	-	-	-	183,000	284,431	467,431	-	-	-
2025-2029	-	-	-	231,000	234,219	465,219	-	-	-
2030-2034	-	-	-	293,000	170,601	463,601	-	-	-
2035-2039	-	-	-	372,000	90,042	462,042	-	-	-
2040-2041	-	-	-	176,000	8,678	184,678	-	-	-
	<u>\$ 155,000</u>	<u>\$ 54,011</u>	<u>\$ 209,011</u>	<u>\$3,243,000</u>	<u>\$ 2,030,579</u>	<u>\$ 5,273,579</u>	<u>\$ 110,218</u>	<u>\$ 4,991</u>	<u>\$ 115,209</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables		
Property taxes	\$ 252,532	\$ -
Accounts	24,583	93,172
Interest	3,523	-
Intergovernmental	92,761	-
Total receivables	<u>\$ 373,399</u>	<u>\$ 93,172</u>
Accounts payable and accrued expenses		
Accounts	\$ 23,340	\$ 3,713
Payroll and related liabilities	23,780	4,090
Interest	-	30,213
Intergovernmental	138	-
Total accounts payable and accrued expenses	<u>\$ 47,258</u>	<u>\$ 38,016</u>

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor governmental funds	Nonmajor governmental funds	
Cemetery Operating Fund	Cemetery Perpetual Care Fund	<u>\$ 10,710 (I)</u>

(I) To transfer interest earned

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers reported in the fund statements were as follows:

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 8: INTERFUND BALANCES AND TRANSFERS, continued

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
Nonmajor governmental funds		
Library Fund	General Fund	\$ 10,000 (I)
	Nonmajor governmental funds	
Cemetery Perpetual Care Fund	Cemetery Operating Fund	10,710 (II)
Major Street Fund	City Street Fund	98,000 (III)
Local Street Fund	City Street Fund	50,474 (III)
Internal service funds		
Economic Development Fund	City Street Fund	155,373 (III)
Component Units		
DDA	City Street Fund	40,000 (III)
LDFA	City Street Fund	5,343 (III)
		<u>\$ 369,900</u>

(I) Reimbursement of expenditures
(II) To maintain principal balance only
(III) To finance street improvements

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The City has purchased commercial insurance for risks to cover these losses. The City also carries commercial insurance for other risks of loss, including employee health insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The City does not have an employee pension plan.

Post Employment Benefits:

The City currently has no requirement to pay employee post employment benefits.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City has placed all deferred compensation plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 11: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

NOTE 12: COMPONENT UNITS REPORTING

	<u>DDA</u>	<u>LDFA</u>	<u>TOTAL</u>
Total assets	\$ 63,131	\$ 2,555	\$ 65,686
Long-term liabilities	84,918	25,300	110,218
Other liabilities	505	1	506
Unrestricted net assets (deficit)	<u>\$ (22,292)</u>	<u>\$ (22,746)</u>	<u>\$ (45,038)</u>

CITY OF YALE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 13: PRIOR PERIOD ADJUSTMENTS

Corrections of Errors:

In the prior year, compensated absences payable was not recorded as a liability in the enterprise funds. It was also noted that there were capital assets acquired in prior years that were not capitalized. The effect on net assets is shown below.

	<i>Proprietary Funds</i>		
	<i>Enterprise</i>		<i>Internal</i>
	<i>Sewer</i>	<i>Water</i>	<i>Service Equipment</i>
Beginning net assets, as previously stated	\$ 1,793,133	\$ 1,190,558	\$ 334,271
Prior period adjustments:			
Recognition of compensated absences as a liability	(899)	(1,207)	-
Capitalization of capital assets acquired in prior years not previously capitalized	19,435	21,426	43,945
Beginning net assets, as restated	<u>\$ 1,811,669</u>	<u>\$ 1,210,777</u>	<u>\$ 378,216</u>

Change in revenue recognition:

The City changed its method of accounting for State-shared revenue and Act 51 revenues to coincide with the State distribution periods.

	<i>Governmental Funds</i>		
	<i>General</i>	<i>Major Street</i>	<i>Local Street</i>
Beginning net assets, as previously stated	\$ 456,563	\$ 108,712	\$ 127,027
Prior period adjustments:			
Recognition of August and October 2003 distributions of State shared revenue in prior year	76,378	-	-
Recognition of May and June 2003 distributions of Act 51 revenue in prior year	-	14,916	6,120
Beginning net assets, as restated	<u>\$ 532,941</u>	<u>\$ 123,628</u>	<u>\$ 133,147</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF YALE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 446,665	\$ 446,665	\$ 450,265	\$ 3,600
Licenses and permits	6,540	6,540	11,003	4,463
Federal grants	-	-	552	552
State grants	225,644	225,644	217,749	(7,895)
Contributions from other units	43,979	43,979	25,225	(18,754)
Charges for services	60,000	60,000	66,827	6,827
Fines and forfeits	2,400	2,400	5,607	3,207
Interest and rents	14,300	14,300	5,523	(8,777)
Other revenue	7,500	7,500	12,962	5,462
Total revenues	807,028	807,028	795,713	(11,315)
Expenditures:				
General government	187,501	196,501	192,301	(4,200)
Public safety	378,030	384,030	376,428	(7,602)
Public works	171,698	184,698	182,219	(2,479)
Recreation and culture	38,180	42,680	45,800	3,120
Other	30,236	7,736	-	(7,736)
Capital outlay	2,475	15,475	14,510	(965)
Debt service:				
Principal	8,214	8	-	(8)
Interest and charges	2,794	-	-	-
Total expenditures	819,128	831,128	811,258	(19,870)
Excess (deficiency) of revenues over expenditures	(12,100)	(24,100)	(15,545)	8,555
Other financing sources (uses):				
Transfers in	12,100	12,100	10,000	(2,100)
Total other financing sources (uses)	12,100	12,100	10,000	(2,100)
Net change in fund balance	-	(12,000)	(5,545)	6,455
Fund balance, beginning of year, as restated	532,941	532,941	532,941	-
Fund balance, end of year	\$ 532,941	\$ 520,941	\$ 527,396	\$ 6,455

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State grants	\$ 82,000	\$ 82,000	\$ 93,130	\$ 11,130
Interest and rents	1,500	1,500	(2,712)	(4,212)
Total revenues	83,500	83,500	90,418	6,918
Expenditures:				
Public works	83,500	83,500	51,672	(31,828)
Total expenditures	83,500	83,500	51,672	(31,828)
Excess (deficiency) of revenues over expenditures	-	-	38,746	38,746
Other financing sources (uses):				
Transfers out	-	(48,000)	(98,000)	50,000
Total other financing sources (uses)	-	(48,000)	(98,000)	50,000
Net change in fund balance	-	(48,000)	(59,254)	(11,254)
Fund balance, beginning of year, as restated	123,628	123,628	123,628	-
Fund balance, end of year	\$ 123,628	\$ 75,628	\$ 64,374	\$ (11,254)

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State grants	\$ 34,400	\$ 34,400	\$ 38,283	\$ 3,883
Interest and rents	1,800	1,800	(334)	(2,134)
Total revenues	36,200	36,200	37,949	1,749
Expenditures:				
Public works	36,200	35,700	28,703	(6,997)
Total expenditures	36,200	35,700	28,703	(6,997)
Excess (deficiency) of revenues over expenditures	-	500	9,246	8,746
Other financing sources (uses):				
Transfers out	(50,000)	(50,500)	(50,474)	(26)
Total other financing sources (uses)	(50,000)	(50,500)	(50,474)	(26)
Net change in fund balance	(50,000)	(50,000)	(41,228)	8,772
Fund balance, beginning of year, as restated	133,147	133,147	133,147	-
Fund balance, end of year	\$ 83,147	\$ 83,147	\$ 91,919	\$ 8,772

The accompanying notes are an integral part of these financial statements.

CITY OF YALE

SPECIAL REVENUE FUND - CITY STREET FUND BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State grants	\$ -	\$ -	\$ 26,289	\$ 26,289
Interest and rents	200	200	66	(134)
Total revenues	200	200	26,355	26,155
Expenditures:				
Public works	200	70,200	101	(70,099)
Capital outlay	50,000	380,000	370,337	(9,663)
Total expenditures	50,200	450,200	370,438	(79,762)
Excess (deficiency) of revenues over expenditures	(50,000)	(450,000)	(344,083)	105,917
Other financing sources (uses):				
Transfers in	50,000	50,000	349,190	299,190
Total other financing sources (uses)	50,000	50,000	349,190	299,190
Net change in fund balance	-	(400,000)	5,107	405,107
Fund balance, beginning of year	28,650	28,650	28,650	-
Fund balance, end of year	\$ 28,650	\$ (371,350)	\$ 33,757	\$ 405,107

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTAL INFORMATION

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2004

Revenues:

Current Taxes:

Property taxes	\$ 431,161
Trailer tax	32
Penalties and interest on taxes	3,018
Administration fees	15,760
	<u>450,265</u>

Licenses and Permits:

Business licenses and permits	492
Non-business licenses and permits	10,511
	<u>11,003</u>

Federal Grants:

Police	552
	<u>552</u>

State Grants:

Liquor license fees	1,117
State revenue sharing – sales tax	216,632
	<u>217,749</u>

Contributions from Other Units:

Reimbursement from school district	25,225
	<u>25,225</u>

Charges for Services:

Refuse collection fees	62,210
Zoning permits and fees	35
Other	4,582
	<u>66,827</u>

Fines and Forfeitures:

Police fines and reports	5,607
	<u>5,607</u>

Interest and Rents:

Interest	(2,177)
Rents	7,700
	<u>5,523</u>

Other Revenue:

Contributions and donations	2,768
Insurance recoveries	1,192
Refunds and rebates	8,029
Other	973
	<u>12,962</u>
Total revenues	<u>795,713</u>

Other Financing Sources:

Transfers from other funds	10,000
Total revenues and other financing sources (uses)	<u>\$ 805,713</u>

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2004

EXPENDITURES:

General Government:

Manager:

Personnel	\$ 50,815
Fringe benefits	15,912
Supplies	78
Travel/Mileage	575
Conference and travel	79
Equipment rental	50
Other	40

67,549

Clerk:

Personnel	5,877
Fringe benefits	450
Supplies	40
Travel/Mileage	76
Dues and memberships	75
Conference and travel	93

6,611

Audit:

Contracted services	2,491
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2,491

Board of Review:

Contracted services	626
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626

General Administration:

Personnel	17,468
Fringe benefits	3,004
Supplies	6,359
Contracted services	556
Telephone	2,534
Travel/Mileage	145
Dues and memberships	1,676
Conference and travel	2,463
Printing and publications	1,046
Insurance	11,906
Utilities	9,530
Repairs and maintenance	14,394
Equipment rental	1,060
Other	520

72,661

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2004

General Government (continued):

Treasurer:

Personnel	\$ 7,465
Fringe benefits	609
Supplies	640
Printing and publications	1,070
	<u>9,784</u>

Assessor:

Fringe benefits	5
Supplies	381
Contracted services	9,425
Printing and publications	63
Repairs and maintenance	315
	<u>10,189</u>

Elections:

Supplies	3,048
	<u>3,048</u>

Building and Grounds

Repairs and maintenance	95
	<u>95</u>

Attorney:

Contracted services	18,677
	<u>18,677</u>

Community Activities:

Personnel	363
Fringe benefits	109
Repairs and maintenance	25
Equipment rental	73
	<u>570</u>

Total general government

192,301

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2004

Public Safety:

Police:

Personnel	\$ 229,847
Fringe benefits	49,648
Supplies	10,050
Contracted services	8,344
Telephone	9,284
Travel/Mileage	453
Dues and memberships	250
Education and training	788
Insurance	18,868
Repairs and maintenance	8,554
Equipment rental	7,200
Other	47

343,333

Fire:

Personnel	4,861
Fringe benefits	275
Supplies	1,722
Telephone	(456)
Dues and memberships	70
Education and training	1,420
Insurance	10,406
Repairs and maintenance	1,523
Other	74

19,895

Protective Inspections and Regulations:

Contracted services

8,482

Other Public Safety:

Contracted services

8,482

4,718

4,718

Total public safety

376,428

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2004

Public Works:

Department of Public Works:

Personnel	\$ 32,227
Fringe benefits	9,325
Supplies	2,052
Contracted services	8,015
Telephone	926
Insurance	6,574
Utilities	4,607
Repairs and maintenance	1,618
Equipment rental	20,327
Other	62

Street Lighting:

Utilities	85,733
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Refuse:

Supplies	36,780
Contracted services	1,000

Total public works

58,706
59,706
182,219

Recreation and Culture:

Parks and Recreation:

Personnel	11,147
Fringe benefits	1,397
Supplies	1,466
Insurance	2,320
Utilities	1,893
Repairs and maintenance	1,805
Equipment rental	9,232
Other	2,250

31,510

CITY OF YALE

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2004

Recreation and Culture (continued):

Library:

Personnel	\$ 255
Fringe benefits	253
Supplies	802
Telephone	(51)
Insurance	1,910
Utilities	6,211
Repairs and maintenance	4,549
Equipment rental	361
	<u>14,290</u>
Total recreation and culture	<u>45,800</u>

Capital Outlay:

Public safety	1,510
Recreation and culture	<u>13,000</u>
	<u>14,510</u>
Total capital outlay	<u>14,510</u>
Total expenditures	<u>\$ 811,258</u>

CITY OF YALE

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2004

	<i>Special Revenue Funds</i>				
	<i>Park Improvement Fund</i>	<i>Criminal Justice Training Fund</i>	<i>Cemetery Operating Fund</i>	<i>Drug Asset Forfeiture Fund</i>	<i>Library Fund</i>
Assets:					
Cash and cash equivalents	\$ 11,468	\$ 1,087	\$ 5,724	\$ 65	\$ 3,475
Investments	-	-	-	-	-
Due from other funds	-	-	10,710	-	-
Prepaid expenditures	-	-	471	-	-
Total assets	\$ 11,468	\$ 1,087	\$ 16,905	\$ 65	\$ 3,475
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable and accrued expenses	\$ -	\$ 1	\$ 1,472	\$ -	\$ -
Due to other funds	-	-	-	-	-
Total liabilities	-	1	1,472	-	-
Fund balances:					
Reserved for:					
Prepaid expenditures	-	-	471	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	11,468	1,086	14,962	65	3,475
Total fund balances	11,468	1,086	15,433	65	3,475
Total liabilities and fund balances	\$ 11,468	\$ 1,087	\$ 16,905	\$ 65	\$ 3,475

(continued)

**Permanent
Funds**

<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
\$ 98,974	\$ 120,793
5,277	5,277
-	10,710
-	471
<u>\$ 104,251</u>	<u>\$ 137,251</u>

\$ -	\$ 1,473
10,710	10,710
<u>10,710</u>	<u>12,183</u>

-	471
93,541	93,541
-	31,056
<u>93,541</u>	<u>125,068</u>

<u>\$ 104,251</u>	<u>\$ 137,251</u>
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CITY OF YALE

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	<i>Special Revenue Funds</i>				
	<i>Park Improvement Fund</i>	<i>Criminal Justice Training Fund</i>	<i>Cemetery Operating Fund</i>	<i>Drug Asset Forfeiture Fund</i>	<i>Library Fund</i>
Revenues:					
Property taxes	\$ 7,860	\$ -	\$ -	\$ -	\$ -
State grants	-	1,327	-	-	-
Charges for services	-	-	15,037	-	-
Interest and rents	164	8	78	1	79
Other revenue	-	-	7,775	-	10,105
Total revenues	8,024	1,335	22,890	1	10,184
Expenditures:					
General government	-	-	43,066	-	-
Public safety	-	901	-	-	-
Recreation and culture	249	-	-	-	12
Capital outlay	-	-	-	-	196
Total expenditures	249	901	43,066	-	208
Excess (deficiency) of revenues over expenditures	7,775	434	(20,176)	1	9,976
Other financing sources (uses):					
Transfers in	-	-	10,710	-	-
Transfers out	-	-	-	-	(10,000)
Total other financing sources (uses)	-	-	10,710	-	(10,000)
Net change in fund balance	7,775	434	(9,466)	1	(24)
Fund balances, beginning of year	3,693	652	24,899	64	3,499
Fund balances, end of year	\$ 11,468	\$ 1,086	\$ 15,433	\$ 65	\$ 3,475

(continued)

**Permanent
Funds**

<i>Cemetery Perpetual Care Fund</i>	<i>Total Nonmajor Governmental Funds</i>
\$ -	\$ 7,860
-	1,327
-	15,037
10,966	11,296
4,150	22,030
15,116	42,434
256	43,322
-	901
-	261
-	196
256	44,680
14,860	(2,246)
-	10,710
(10,710)	(20,710)
(10,710)	(10,000)
4,150	(12,246)
89,391	122,198
\$ 93,541	\$ 109,952

CITY OF YALE

PROPRIETARY FUNDS—INTERNAL SERVICE FUNDS COMBINING STATEMENT OF NET ASSETS

June 30, 2004

	<i>Public Improvement Fund</i>	<i>Economic Development Fund</i>	<i>Equipment Fund</i>	<i>Total Internal Service Funds</i>
Assets:				
Current Assets:				
Cash and cash equivalents	\$ 102,254	\$ 3,107	\$ 267,133	\$ 372,494
Total current assets	102,254	3,107	267,133	372,494
Noncurrent assets:				
Capital assets:				
Nondepreciable capital assets	-	138,341	-	138,341
Depreciable capital assets, net	124,934	-	313,266	438,200
Total noncurrent assets	124,934	138,341	313,266	576,541
Total assets	277,188	141,448	580,399	949,035
Liabilities:				
Current Liabilities:				
Accounts payable and accrued expenses	-	1,312	2,079	3,391
Current portion of long-term debt	-	-	10,000	10,000
Total current liabilities	-	1,312	12,079	13,391
Noncurrent liabilities:				
Long-term debt	-	-	145,000	145,000
Total noncurrent liabilities	-	-	145,000	145,000
Total liabilities	-	1,312	157,079	158,391
Net assets:				
Invested in capital assets, net of related debt	124,934	138,341	158,266	421,541
Unrestricted	102,254	1,795	265,054	369,103
Total net assets	\$ 227,188	\$ 140,136	\$ 423,320	\$ 790,644

CITY OF YALE

PROPRIETARY FUNDS--INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	<i>Public Improvement Fund</i>	<i>Economic Development Fund</i>	<i>Equipment Fund</i>	<i>Total Internal Service Funds</i>
Operating revenues:				
Charges for services	\$ -	\$ -	\$ 23,000	\$ 23,000
Equipment rental	-	-	107,215	107,215
Total operating revenues	-	-	130,215	130,215
Operating expenses:				
Personnel	-	-	14,330	14,330
Fringe benefits	-	-	4,486	4,486
Supplies	-	-	133	133
Gas and oil	-	-	5,556	5,556
Contracted services	-	1,606	498	2,104
Printing and publications	-	470	-	470
Repair and maintenance	-	-	22,703	22,703
Other services and supplies	762	-	22	784
Depreciation	3,341	-	30,434	33,775
Total operating expenses	4,103	2,076	78,162	84,341
Operating income (loss)	(4,103)	(2,076)	52,053	45,874
Non-operating revenues (expenses):				
Interest income	1,104	501	889	2,494
Rental income	11,333	-	-	11,333
Interest expense	(4,017)	-	(7,838)	(11,855)
Total non-operating revenues (expenses)	8,420	501	(6,949)	1,972
Net income (loss) before operating transfers	4,317	(1,575)	45,104	47,846
Operating transfers:				
Transfer to other funds	-	(155,373)	-	(155,373)
Total operating transfers	-	(155,373)	-	(155,373)
Net income (loss)	4,317	(156,948)	45,104	(107,527)
Net assets, beginning of year, as restated	222,871	297,084	378,216	898,171
Net assets, end of year	\$ 227,188	\$ 140,136	\$ 423,320	\$ 790,644

CITY OF YALE

PROPRIETARY FUNDS--INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	<i>Public Improvement Fund</i>	<i>Economic Development Fund</i>	<i>Equipment Fund</i>	<i>Total Internal Service Funds</i>
Cash flows from operating activities:				
Cash received from customers	\$ 96,000	\$ -	\$ 24,500	\$ 120,500
Internal activity -- payments from other funds	-	-	107,215	107,215
Cash payments to employees	-	-	(14,330)	(14,330)
Cash payments to suppliers for goods and services	(762)	(764)	(33,206)	(34,732)
Net cash provided (used) by operating activities	95,238	(764)	84,179	178,653
Cash flows from non-capital financing activities:				
Transfers to other funds	-	(155,373)	-	(155,373)
Net cash provided (used) by non-capital financing activities	-	(155,373)	-	(155,373)
Cash flows from capital and related financing activities:				
Principal payments	(71,146)	-	(10,000)	(81,146)
Interest paid	(4,017)	-	(7,838)	(11,855)
Net cash provided (used) by capital and related financing activities	(75,163)	-	(17,838)	(93,001)
Cash flows from investing activities:				
Interest received	1,104	501	889	2,494
Rental income	11,333	-	-	11,333
Net cash provided (used) by investing activities	12,437	501	889	13,827
Net increase (decrease) in cash and cash equivalents	32,512	(155,636)	67,230	(55,894)
Cash and cash equivalents, beginning of year	69,742	158,743	199,903	428,388
Cash and cash equivalents, end of year	\$ 102,254	\$ 3,107	\$ 267,133	\$ 372,494
Operating income (loss)	\$ (4,103)	\$ (2,076)	\$ 52,053	\$ 45,874
Adjustments:				
Depreciation	3,341	-	30,434	33,775
Decrease (increase) in current assets:				
Accounts receivable	-	-	1,500	1,500
Notes receivable	96,000	-	-	96,000
Increase (decrease) in current liabilities:				
Accounts payable and accrued expenses	-	1,312	192	1,504
Net cash provided (used) by operating activities	\$ 95,238	\$ (764)	\$ 84,179	\$ 178,653

CITY OF YALE

FIDUCIARY FUNDS--AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2004

PAYROLL FUND

	<i>Balance 07-01-03</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance 06-30-04</i>
Assets:				
Cash and cash equivalents	\$ 2,759	\$ 363,328	\$ 367,741	\$ (1,654)
Liabilities:				
Accounts payable and accrued expenses	\$ 2,759	\$ 363,328	\$ 367,741	\$ (1,654)

CURRENT TAX COLLECTION FUND

Assets:				
Cash and cash equivalents	\$ 23,153	\$ 1,520,646	\$ 1,276,920	\$ 266,879
Liabilities:				
Accounts payable and accrued expenses	\$ 23,153	\$ 1,520,646	\$ 1,276,920	\$ 266,879

TOTAL ALL AGENCY FUNDS

Assets:				
Cash and cash equivalents	\$ 25,912	\$ 1,883,974	\$ 1,644,661	\$ 265,225
Liabilities:				
Accounts payable and accrued expenses	\$ 25,912	\$ 1,883,974	\$ 1,644,661	\$ 265,225

**BERTHIAUME
& COMPANY**

Certified Public Accountants



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MANAGEMENT LETTER

To the City Council
City of Yale, Michigan

We have completed our audit of the financial statements of the City of Yale for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Yale, Michigan taken as a whole. Our study and evaluation disclosed no material weaknesses.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination. If there is a need to discuss the above comments further, please contact us at your convenience.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 15, 2004



**BERTHIAUME
& COMPANY**

Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the City Council
City of Yale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Yale, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Yale, Michigan's basic financial statements and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Yale, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Yale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 15, 2004